Company Name: AerCap Holdings
Company Ticker: AER US
Date: 2022-03-30
Event Description: Q4 2021 Earnings Call

Market Cap: 12919.857256617404
Current PX: 52.7599983215332
YTD Change($): -12.66
YTD Change(%): -19.352

Bloomberg Estimates - EPS
Current Quarter: 1.6300000000000001
Current Year: 7.19
Bloomberg Estimates - Sales
Current Quarter: 1930.5
Current Year: 7861.75

Q4 2021 Earnings Call

Company Participants

- Joseph McGinley, Head of Investor Relations
- Aengus Kelly, Chief Executive Officer and Executive Director
- Peter Juhas, Chief Financial Officer

Other Participants

- James Kirby, Analyst
- Helane Becker, Analyst
- Moshe Orenbuch, Analyst
- Vincent Caintic, Analyst
- Ross Harvey, Analyst
- Catherine O'Brien, Analyst
- Ron Epstein, Analyst

Presentation

Operator

Good day and welcome to AerCap's Fourth Quarter 2021 Financial Results. Today's conference is being recorded and a transcript will be available following the call on the company's website. At this time, I would like to turn the conference over to Joseph McGinley, Head of Investor Relations. Please go ahead, sir.

Joseph McGinley, Head of Investor Relations

Thank you, operator, and hello, everyone. Welcome to our fourth quarter 2021 conference call. With me today is our Chief Executive Officer, Aengus Kelly; and our Chief Financial Officer, Pete Juhas.

Before we begin today's call, I would like to remind you that some statements made during this conference call which are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. AerCap undertakes no obligation other than not imposed by law to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call. Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated March 30, 2021. A copy of our earnings release and conference call presentation are available on our website at aercap.com. And this call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay. We will shortly run through our earnings presentation and we'll allow time at the end for Q&A. As a reminder, I would ask that analysts limit themselves to one question and one follow up.

I will now turn the call over to Aengus Kelly.

Aengus Kelly, Chief Executive Officer and Executive Director

Good morning, everyone, and thank you for joining us for our full-year 2021 earnings call. I am pleased to report full year earnings of $8.68 per share, excluding transaction related expenses. 2021 was a milestone year for AerCap as we closed the GECAS transaction on November 1. This transaction significantly enhanced and diversified our business, broadened our customer base and geographic reach, increased our product offering and added outstanding new talent, the combination of which will lead to increased revenues, earnings and cash flows for years to come. This along with the continued recovery in air travel in many parts of the world puts AerCap on a positive trajectory heading into 2022.

Now, before we talk about AerCap and the year ahead, I do want to address the tragic events unfolding daily in Ukraine. Like all of you, our thoughts are with the people of Ukraine more important than any potential financial impact is a clear and very serious humanitarian crisis taking place in that country, which is impacting the lives of millions of innocent people. Our hope is for a peaceful resolution as soon as possible.

As a result of the far-reaching sanctions against Russia imposed by various governments, aircraft lessors which have operation through the EU, US and various other countries are prohibited from supplying aircraft and aircraft components to Russia. In compliance with these sanctions, AerCap has terminated all aircraft and engine leases we have entered into with Russian entities, and we're fully comply with these sanctions. Prior to these sanctions being introduced, AerCap had 135 owned aircraft as well as 14 engines on lease to Russian Airlines. We had no helicopters on lease to Russian Airlines. This represented approximately 5% of our fleet value. As you would expect, we have taken aggressive steps to recover these assets, and so far have repossessed 22 aircraft and three engines from Russia. In addition, we have 7 aircraft on lease in Ukraine and 5 of those have being recovered. We had zero aircraft in Belarus.

Let me add that our lessees are required to provide insurance coverage with respect to leased aircraft and we are insured under those policies in the event of a total loss of an aircraft. We also purchased insurance, which provides us with coverage when our aircraft or engines are not subject to a lease or where they are subject to a lease but a lessee's policy fails to indemnify us. We intend to vigorously pursue all of our claims under these policies with respect to our assets leased to Russian Airlines, as well as all other legal remedies that may be available to us.

Away from events in Russia, it's important to highlight the strength of AerCap and how the overall aviation leasing environment has improved in the last 12 months, driven by the reopening of markets in Europe and the US with more expected to come in Asia throughout the year. I also want to update you on the GECAS transaction and highlight the diversification our enlarged business benefits from, and also how our customer interaction has changed since the closing of the transaction.

On the integration front, I am pleased to report that we've made tremendous progress. We have filled all of the senior leadership positions. And I'm pleased to welcome several new members to our management team, who bring with them a wealth of knowledge and experience. I would like to acknowledge the work that has been done to integrate the two companies so seamlessly. And to make a special mention to all of our new colleagues who have integrated so well into the AerCap team, many of whom have changed locations or roles at what was an uncertain time. I thank them for their hard work and dedication. Without such a seamless transition, we would not have been able to sign 158 lease agreements as well as 72 asset sales and purchases in the fourth quarter alone. No other leasing company comes close to this level of execution. This record level of activity shows that we hit the ground running just like we did eight years ago, and it is the demonstrable proof of the efficiency and the effectiveness of our integration process.

Another important feature of the acquisition of GECAS has been the addition of four new areas of focus for the company; engines, cargo, helicopters and materials. Each have distinct benefits and synergies that add to the overall AerCap value proposition and offer new lines of revenues and opportunities to support our customers. What I've noticed in particular in the five months that we've now been a combined company is that the level of customer engagement has really stepped up and that we are in a position to provide solutions to airlines and manufacturers, which no one else in the world can. Our two engine leasing businesses have performed well and provide us with a broader reach into our airline customers, significant optionality and how to manage older aircraft and valuable revenue diversification.

Our 100% owned engine leasing business is comprised almost entirely of General Electric and CFM engines. These are the most liquid engine types that power the world's most popular and in demand aircraft, including the Airbus A320neo, Boeing 737 MAX, 737NG, Airbus A320, Boeing 787 and Boeing 777-300ER aircraft.

Our engine leasing business has deep relationships with two key OEMs; GE Aviation and CFM International known as CFMI. Some of you may know and others may not that CFMI is a joint venture between General Electric and Safran. This joint venture was established almost 50 years ago and it produces every engine that powers the 737 family, the 737 MAX family, 50% of all A320s and 50% of all A320 NEO family aircraft. A key part of the CFMI joint venture is it's spare engine leasing business known as SES. As part of the GECAS deal, AerCap took over GE's 50% share of SES and signed a 20-year agreement with Safran regarding SES.

Engine lease utilization continued to increase through 2021 as a result of strong demand for spare engines. This demand is driven by increased engine utilization. Information AerCap has access to on a daily basis. And it is clear from our data that many airlines continue to delay investment in new engines and shop visits as a way to preserve cash. This has helped demand for our short-term leasing product as well as demand for spare parts in our materials business for refurbishments. As long haul travel continues to reopen in Asia, in particular, I would expect to see further demand for this product in the year ahead.

Moving onto the cargo business, where we are the leader, we have observed structural increase in the demand for cargo aircraft, driven by the rise in e-commerce and global supply chain issues. Due to the structural change, GECAS, which has been a global leader in cargo leasing for 20 plus years, invested in a joint venture conversion program for the 777-300ER with our partner, Israel Aerospace Industries known as IAI. This joint venture is called the Big Twin Freighter program, which involves the conversion of the Boeing 777-300ER aircraft into long haul large capacity freighters. This is the latest in a series of partnerships with IAI dating back over 20 years, which includes the conversion of the Boeing 737 300, 400 as well as 767 300s. We see strong demand for this program and we have a clear first mover advantage as GECAS and IAI launched this JV in 2019. Airlines are attracted by the strong unit economics of the aircraft and the excellent payload range performance given where commodity prices are, I expect further demand to come in the year ahead as operator switch from four engine aircraft like the 747.

On the helicopter side, we observed improving demand throughout the second half of 2021. The movement in commodity prices has provided a further tailwind for demand since the beginning of 2022. This combined with tighter OEM supply in the last number of years has helped firm up lease rates and demand. I was able to see this level of interest and enthusiasm first hand when I attended the Heli-Expo event in Dallas, Texas earlier this month. And I am confident this sector will further strengthen in 2022.

The expansion into new utility emissions has also been a positive driver for helicopter demand. Two examples would be defense where one of our larger customers provides support to the US Navy and search and rescue, which includes the growing area of aerial firefighting. Given recent events, it is likely that energy independence is going to be an ongoing theme for the foreseeable future. And our helicopter business will help to support this trend with various new campaigns underway. So with the stronger macro backdrop, wider mission capability and tighter supply, the business is well positioned to capitalize on increased demand.

Now turning to passenger aircraft. We continue to see a robust improvement in demand as COVID restrictions around the world are unwound. For example, domestic travel in Indonesia, Thailand, The Philippines, Malaysia and Vietnam is already back to approximately 80% of 2019 levels, which is around 30,000 flights a week. In contrast, however, international travel in those countries remained low at only 17% of 2019 levels or 2,300 flights per week. So there is plenty of room for growth there as restrictions ease, which will feed into future widebody demand.

Now turning to the impact of higher oil. Certain in the short term, it is clear that the pent-up demand for air travel is extremely strong given two years of lockdowns around the world coupled with high levels of household savings. If higher commodity prices persist, we will have to see what impact they have, but please bear in mind, the industry was able to cope with $100 oil between February 2011 and September 2014. Airlines in Europe benefit from higher average fuel hedging than their North American counterparts. And recent statements from the airlines suggest they're confident that they can pass through higher oil prices as yields remain strong. One recent example was that Delta has their highest ever day of sales despite being at approximately 80% of 2019 capacity. So what we can clearly see on a global basis is that the propensity to travel has not diminished, and that the industry has proven itself to a higher oil prices even following the financial crisis. We have every confidence that it will do so again this year.

In summary, the integration of GECAS has been extremely successful as demonstrated by the level of deal activity, 230 deals in 90 days, which is unprecedented for the industry. In 2021, aircraft generated tremendous earnings of over $8 per share in adverse circumstances and executed the largest M&A deal in the industry's history. As we look forward, the rebound in demand for air travel and our strong balance sheet allied to the benefits of the GECAS transaction, sets AerCap up for many years to come.

I'll now hand the call over to Pete for a review of the financials.

Peter Juhas, Chief Financial Officer

Thanks, Gus. Good morning, everyone. Before going through our fourth quarter results, I'd like to give you an overview of our Russian exposure from a financial standpoint. As Gus mentioned prior to the Russian invasion of Ukraine and the imposition of sanctions, AerCap had 135 owned aircraft and 14 owned engines on lease to Russian Airlines. These assets generated monthly lease rents of approximately $33 million based on the month of December 2021. The net carrying value of these assets on our balance sheet was approximately $3.1 billion as of December 31, 2021. That includes the net book value of flight equipment, maintenance rights assets, on balance sheet maintenance reserves that we hold against them and other related assets and liabilities. And that represents around 5% of the total net carrying value of our assets. Of course, we intend to fully comply with all applicable sanctions. We've issued termination notices in respect of all of our aircraft and engines lease to Russian Airlines, and we've taken aggressive steps to recover our assets. As of today, we have removed 22 of our owned aircraft and three of our owned engines from Russia.

The net carrying value of the assets that we've removed to date is approximately $400 million and we are currently assessing the condition of these aircraft. We have approximately $260 million of letters of credit related to our Russian assets that are not on our balance sheet. For the most part, these represent security deposits that were not paid in cash, but rather provide as a Letter of Credit with the bank that can be drawn upon in an event of default. We've presented a request for payment to all of the banks provide in these letters of credit. So far we've received approximately $175 million from these banks and we're pursuing payments of the remaining amounts and enforcing our rights under the remaining letters of credit.

That leaves us a net remaining exposure after the letter of credit proceeds already collected and based on the net carrying value of assets already removed of approximately $2.5 billion for assets that remain in Russia. Of course, we continue to make efforts to repossess additional aircraft and engines from Russia, but it is uncertain whether we will be successful in these efforts. Many of these aircraft are now being flown illegally by our former airline customers. We expect to recognize an impairment on the aircraft and engines that remain in Russia, which may occur as early as the first quarter of 2022 while we also need to review for impairment the assets that we have removed from Russia.

As Gus mentioned earlier, our lessees are required to purchase insurance coverage under our leases and we also purchase our own insurance to provide contingent coverage as well as coverage when our aircraft are off lease. We will vigorously pursue our rights under all of these policies. Last week, we submitted an insurance claim for approximately $3.5 billion with respect to our aircraft and engines remaining in Russia. We also planned to pursue all other avenues for the recovery of the value of our assets, including other legal claims available to us. However, it is uncertain whether these efforts will be successful.

So to sum up, the total net carrying value of our assets on lease to Russian Airlines was $3.1 billion. This will be offset by the value of assets that we're able to remove from Russia and the payments that we receive under our letters of credit. And of course ultimately our economic exposure will also be offset by any recoveries that we obtained from insurance or other claims.

Now I'll turn to the fourth quarter results, which is the first quarter to include the results of the legacy GECAS business. The fourth quarter includes results for GECAS for the two months starting November 1st to date we completed the transaction through December 31. Our total revenues for the fourth quarter were $1.442 billion, an increase of 40% from the fourth quarter of 2020. This increase was primarily due to the inclusion of basic lease rents from the legacy

GECAS business. The impact of cash accounting in the fourth quarter was $68 million, which is a reduction from the impact during the third quarter notwithstanding the fact that we now also have some legacy GECAS aircraft on cash accounting. Maintenance rents were slightly lower in the fourth quarter as we had a lower number of lease terminations in the fourth quarter of 2021.

We continue to see positive momentum with our customers from the global recovery in air travel. Our operating cash flow for the fourth quarter was $1.7 billion, which was helped by the collection of $409 million related to our LATAM claim. Our cash collection rate was over 100%, as we had net repayments of deferrals during the quarter. Our deferral balance at the end of December was $587 million, which was higher than the $427 million that we reported at the end of the third quarter due to combining the two businesses. However, for both aircraft and legacy GECAS, we saw a reduction in deferral balances over the past several quarters and we would expect this trend to continue during 2022.

During the fourth quarter from our owned fleet, we sold 19 aircraft, two engines and three helicopters for a total of $412 million. The average age of the assets that we sold was 15 years and our net gain on sales for the quarter was $25 million, or a 6% gain on sale margin. Other income was $38 million for the quarter, which increased due to higher management fees and other items.

Turning now to expenses. Our total expenses were $1.353 billion for the fourth quarter and increased due to the GECAS acquisition. The main areas of the increase were depreciation and amortization due to the larger fleet, interest expense to the larger debt balance, other leasing expenses and SG&A because of the increase in the size of the business. We also recognized expenses of $139 million in the fourth quarter related to the GECAS transaction. This primarily represents the amortization of the remaining cost of the bridge financing facility that we put in place last March, as well as legal and other fees related to the transaction. Excluding the costs related to the GECAS transaction, net income for the fourth quarter of 2021 was $211 million or $1.04 per share. For the full year of 2021, aircraft generated net income of just over $1 billion or $6.71 a share. Excluding GECAS transaction related expenses, net income for the full year was $1.294 billion or $8.68 per share.

We continue to maintain a strong liquidity position. As of December 31, our total sources of liquidity were approximately $18 billion, which resulted in next 12 months sources to use this coverage ratio of 2.2 times. That's well above our current target of 1.5 times and gives us excess cash coverage of approximately $10 billion.

As I mentioned earlier, our cash collections continue to be strong at over 100% and our operating cash flow was $1.7 billion for the fourth quarter. We continue to maintain a very strong balance sheet. Our leverage ratio at the end of the quarter was 2.66 to 1, which is slightly below our target of 2.7 to 1 and which is well ahead of what we forcasted when we announced the GECAS transaction this time last year.

Our secured debt percentage was approximately 15% of our total assets, the lowest level in the company's history. That's also a significant decrease from 23% as of the third quarter prior to completion of the GECAS transaction.

Finally, our average cost of debt has come down significantly and is now 3.2% compared to 3.8% for the fourth quarter of 2020.
As many of you know, when we acquired the GECAS business, we were required under GAAP to fair value, all of the assets and liabilities. Net asset value of the GECAS business on their closing balance sheet was $33.5 billion. We paid GE total consideration of $30.2 billion, which was comprised of $22.6 billion in cash, $1 billion of notes issued directly to GE and $6.6 billion of equity, which is 111.5 million shares multiplied by the stock price on the closing date. So that $30.2 billion is the total amount of value that we had allocated through the Purchase Price Allocation or PPA process. As you'd expect, the largest amount of value is allocated to flight equipment. It's important to note though that in purchase accounting, we are required to separate the metal value of the flight equipment assets that is based on the actual physical condition that they are in as of the closing date and other assets related to the lease contracts we have in place for that flight equipment. We have $24.4 billion of flight equipment based on the physical condition of the aircraft engines and helicopters. In addition, we also have a further $4 billion of related maintenance rights assets. So altogether, the total value of flight equipment assets is $28.4 billion. We have another asset of $3 billion that reflects the prepayments on flight equipment or PDPs, which GECAS made to the OEMs for future orders. In addition, we recognized an accrued maintenance liability for amounts that we expect to reimburse our customers for future maintenance events, and there are also some other assets and liabilities.

I thought it would be useful to explain a few of these key items in a little more detail. For those of you who are familiar with our acquisition of ILFC in 2014, we went through exactly the same process this time and recognize the same types of maintenance rights assets, lease premium assets and maintenance liabilities that we did back in 2014. The flight equipment of $24.4 billion was based on the actual maintenance condition of each asset as of the closing date and the discounted cash flows over the remaining life of that asset. This amount will be depreciated over the remaining useful life of each asset. For most passenger aircraft, that means over the remaining useful life until the aircraft is 25 years old. The maintenance rights asset represents the difference between the physical condition of each asset on the closing date and the contractually required return condition at the end of the lease. As many of you know the lessee is responsible for the maintenance of our aircraft while they're on lease. They either make maintenance reserve payments to us on a monthly basis based on the utilization of the aircraft of the previous month, which is called a maintenance reserve contract or they make a payment to us at the end of the lease for the value difference between the actual return condition and the contractually required return condition, which is called an end-of-lease contract.

This maintenance rights asset is amortized over the remaining term of the lease not over the remaining useful life of the aircraft. This effectively results in accelerated depreciation of the asset over the remaining term of the lease. It is amortized when events occur rather than on a straight-line basis, so it can move around from quarter-to-quarter depending on what events happen during that quarter.

When we calculate the fair value of assets, we have to look at the market as of the closing date. If we have a lease that's in the money, in other words, where the rental rate in the lease agreement is higher than the prevailing market rate as of the closing date, we have to recognize the least premium asset. The least premium asset represents the discounted value of those differences between the contractual rate and the market rate and is amortized over the remaining term of the lease as a reduction to basic lease rents. This has two impacts. First, it reduces the amount of revenue that we will report during the remaining terms of lease. And second, it results in accelerated depreciation of lease assets over the period. That's because of the lease premium asset, like the maintenance rights asset is amortized over the remaining lease term, not the remaining useful life. And finally, the maintenance liability is the amount that we expect to reimburse our lessees for maintenance events that occurred during the remainder of the lease. That liability of $1.2 billion will increase as we will receive future maintenance payments and will decrease when the maintenance events occur and we reimbursed our lessees.

So what does all this mean in practice, it means that the purchase accounting rules have a significant impact on our balance sheet and our income statement. To give you an idea of this, during the fourth quarter alone, our revenue was reduced by a non-cash amount of $129 million due to amortization of the maintenance rights asset and lease premium assets during the quarter. I realize that's a lot of information on accounting topics, but given the sizes of these items and the significant impact on the financial statements. I thought of these further explain all of this in some detail.

So with that, operator, we can open up the call for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) All right. And we'll take our first question from Jamie Baker with JPMorgan. Please go ahead.

James Kirby, Analyst

Hey, this is James on for Jamie and Mark, who send their regards. Just wanted to start maybe with one question on the order book and then a second question on Russia. But for the order book this year, can you just give an update on the placement of the book for '22? I'm not sure if you disclosed in the past, but was there a percent of fleet that's aircraft on the ground, but just any general color on the forward order book?

Aengus Kelly, Chief Executive Officer and Executive Director

Sure. On the order book we're seeing very robust demand around the world be that in Southeast Asia, where we're starting to see the recovery start to take hold and we look at South America, we've been placing aircraft there, in North America, we placed aircraft there and in Europe, we're seeing the widebody new activity placement pick up as well with a couple of placements in the European arena. And now regarding 2022, we had no aircraft left to place prior to the Russian sanctions, we'll have a handful of airplanes now to place and we're seeing very good demand for all of those assets. In fact, last week we had several airlines looking for those slots. So those airplanes will all get placed. And the order book itself is ~90% focused on the narrow bodies predominantly the A320neo, of course, and then to a lesser extent the MAX, of which we're also seeing improved demand coming in there. And I think as we have seen elsewhere in the world, the demand to travel has not gone away, and it comes back faster than the airlines realize in every region. And we're seeing that now in Southeast Asia. Yesterday, I had a long discussion with the CEO of one of the largest airlines in Asia. He was keen to see what we had observed as the recovery took hold in other parts of the world. And they want to be ready to meet the demand that they believe will come throughout the end of this year. Sorry, what was your second question?

James Kirby, Analyst

Well, I'm not sure if you disclosed the aircraft on the ground or -- as a percent of fleet.

Aengus Kelly, Chief Executive Officer and Executive Director

Aircraft on the ground, I mean it's de minimis, excluding Russia.

James, Analyst

Okay. That's helpful. And then just moving to Russia, I guess, bigger picture, has the situation in Russia caused you to rethink how you think about different markets across the world in terms of political risk or, how do you think about the risk premium globally across your portfolio?

Aengus Kelly, Chief Executive Officer and Executive Director

I think, look, our unique position in the industry gives us tremendous diversification, be that in the regular way passenger fixed-wing business where we're pretty much equally represented in each major country in the world or region that we would track global ASKs that would tend to match where we are in terms of -- percentage of our fleet there. So I don't see any major change there. The business is highly diversified and then post the GECAS transaction, you have look at the business now and say, okay, we have the passenger business, we have the freight business, we have the biggest engine business in the world, we have the biggest helicopter business in the world. Helicopter business is one that's been, of course, a pleasant surprise given what we have seen occur in commodity prices. We've seen a significant uptick in demand for helis over the course of the second half of 2021. That has certainly increased significantly over the last couple of months. As we see energy independence and security becoming more and more of a theme.

James Kirby, Analyst

Got it. And then if I could sneak in one more, a quick one, hopefully. Can you give a breakdown of the exposure from state-owned airlines versus private? And do you think there is any difference and how that will be treated by insurance?

Aengus Kelly, Chief Executive Officer and Executive Director

No. There is no difference at all. And there is no difference whatsoever between the two. We're about 75% non-state-owned, if you break it down by book value.

James Kirby, Analyst

Got it. Great. Thank you.

Operator

All right. And we'll take a question now from Helane Becker with Cowen. Please go ahead.

Helane Becker, Analyst

Yeah. Thanks very much, operator. Hi, everybody. And thank you very much for the time. And, so I guess the question is with respect to cargo, because that was not a business that you were in. And you commented about you're surprised with respect to helicopters. What about cargo? Are you surprised at the demand there? And how are you thinking about that going forward? And then the other question is on things like eVTOL. I don't think that's on your radar right now. But how are you thinking about that going forward as well? Are you thinking of being a fast follower or how are you thinking about that? So thanks.

Aengus Kelly, Chief Executive Officer and Executive Director

Sure. So on cargo, Helane, GECAS has been a leader in the cargo business for the last 30 years. And they have been at the forefront of every major cargo conversion program, be that 737 Classics, the 300s, the 400s. They were the launch customer on the 800 conversions, the MD-11 conversions. And so they had a much deeper knowledge of that business than AerCap did. And that's why we're delighted that the entire cargo team is still here with us and is leading the growth of that business -- significant growth. But the thing that GECAS did and this is long before we saw the exponential growth in demand for cargo, resulting from the pandemic, was that GECAS because of their knowledge, entered into a joint venture agreement with IAI, which is the most experienced cargo conversion house in the world. And launching a cargo conversion program is a very difficult thing to do and it requires deep engineering expertise and knowledge of the markets. So GECAS entered into the joint venture with IAI and we have clear first mover advantage there on the triple 777-300ER conversion program. And we're seeing very good demand for that. And we're going to see our presence in the cargo business grow over the years to come as well, so we're very excited about that. On the eVTOL, look our focus at the moment, Helane, is on our own businesses that we have and we're very confident in those.

Helane Becker, Analyst

Okay. That's all. Fair enough. Thanks very much. Those were my questions.

Aengus Kelly, Chief Executive Officer and Executive Director

You're welcome.

Operator

All right. Now, we'll hear from Moshe Orenbuch with Credit Suisse. Please go ahead.

Moshe Orenbuch, Analyst

Great. Thanks. Pete, is there a way to kind of bridge how to think about the revenue side of the equation from what you saw in the fourth quarter and the major puts and takes as to how you're going to get into what it's going to look like in early 2022 and what the trends are that will be kind of influencing and -- influencing that is there just a way to kind of give a little bit of a bridge? Obviously, you've got one month that GECAS wasn't in there, but there are also kind of other sort of things that you probably should be aware of?

Peter Juhas, Chief Financial Officer

Sure, Moshe. Look, I think given the uncertainty around Russia at the moment, it's difficult to give guidance on 2022. What I would say is, if you look at the revenues for the fourth quarter, I mentioned this in my remarks, but you do have some things coming through that affect those like -- the lease premium asset, right, the amortization of that. There are a number of other kind of -- I'd say distorting things that happen in the fourth quarter. So it doesn't make it that great a run rate to be looking at that -- from that standpoint. I'd say overall though if we look at kind of the trends that we've been seeing in terms of cash accounting and cash flows and things like that, those have all been positive, right, and we would expect those to continue, right, in terms of our deferrals coming down, our cash collection rate was over 100% in the fourth quarter. I think we will see a good rate in the first quarter as well. So all of that continues to progress. But like we had said on previous calls, I do you think that revenues are going to climb like leaving Russia side, revenues are going to climb during the course of the year as we continue to emerge from COVID.

Moshe Orenbuch, Analyst

Just to drill down on there for one second. You did mention that the -- those -- the maintenance rights and the lease premium are amortized over the remaining life of leases versus the life of the aircraft. What are those two numbers for GE, like what is, how big difference was that?

Peter Juhas, Chief Financial Officer

Well, I mean what you'll see is hundreds of millions of dollars coming through from those two items combined, right, during the course of each year really because when you think of the average remaining leases either several years right for five years. So, most of that amount will be coming down over that period. Like if you go back to the ILFC acquisition, that's when you saw those big numbers coming through that impacted our results. And so that's why I went through that long and maybe laborious accounting tutorial there because I just think it's important for people to recognize these items and to understand the impact they have. They are non-cash items from an economic standpoint. I think it's reasonable to look through them, but obviously that's not how the accounting treatment works.

Aengus Kelly, Chief Executive Officer and Executive Director

And Moshe, we just had a very simple level, if we are two identical aircraft, one was AerCap, one was GECAS, with identical features, identical economics purchase prices, what you will see is that post the transaction, the GECAS assets, which you would have had some maintenance rights asset and lease premium on us, then that will dampen the profitability of that asset artificially over the next couple of years. And because it's just a non-cash acceleration of depreciation, that's what it is.

Moshe Orenbuch, Analyst

I understand the concept. I guess I'm just trying to understand whether you're going to be able to call out those amounts specifically for us so that we can identify.

Aengus Kelly, Chief Executive Officer and Executive Director

Yeah. Look, I think, I mean, each quarter, we would plan to explain all of the factors right that affect the results. It just like we did in this quarter Moshe, Pete has indicated the number.

Peter Juhas, Chief Financial Officer

Yeah. Yeah. I do think that that's something that people should be considering. But at the moment, it's hard to predict it for '22, as I said, so we'll have to come back to you later on that.

Moshe Orenbuch, Analyst

But it is fair to say that since it's on the remaining life of the leases, some of those leases are expiring this year. So on balance, it should be declining amounts.

Peter Juhas, Chief Financial Officer

Yes. So overall, you're right. I mean basically that what I showed was an aggregate amount. So you've got somewhere, it's a lease that last for a year, some last three years, some five. So it's all of those combined. So you should see it rolling off over time as we did with the ILFC transaction, right. What's harder to predict is the maintenance rights asset gets amortized when events occur. And that -- you basically have to forecast out and say, okay, when are those events going to occur. So it can move around a lot and it can be lumpy from quarter-to-quarter, that's what makes it more difficult.

Aengus Kelly, Chief Executive Officer and Executive Director

But Moshe as we said, we will show you every quarter what it was. And of course, as we said, it's an accelerated charge, its non-cash, it has no economic impact on the business.

Moshe Orenbuch, Analyst

Perfect. Thank you very much.

Peter Juhas, Chief Financial Officer

Sure.

Operator

All right. And our next question will come from Vincent Caintic with Stephens. Please go ahead.

Vincent Caintic, Analyst

Hey. Thanks. Good morning. Thank you for taking my questions. I mean the -- and this is kind of a follow-up to Moshe's question. But the primary question I'm getting from investors this morning is when I take the -- when we take the dollar four adjusted EPS for the fourth quarter, is that a good run rate when we think about 2022? So I mean that would be annualizing to about $5 a share of EPS in 2022. And then relatedly, if you can help us think about that maintenance right asset at least premium asset, the impact to 2022 -- I know it's kind of lumpy. But if I remember correctly, previously at a table in the proxy, so any help you can give us on whether fourth quarter before the impact of Russia, is that a good run rate when I think about GAAP earnings and some of the moving parts to it?

Peter Juhas, Chief Financial Officer

Sure. So look, overall, Vincent, in terms of guidance, I think it's difficult to give that at the moment on -- across the board. But in terms of those two items, yeah, I mean, look, I would say, I expect that to be over $100 million a quarter combined for those two and it could be well over $100 million in certain quarters. So I don't think it's necessarily about run rate to be using in that regard.

Aengus Kelly, Chief Executive Officer and Executive Director

Sorry. Moshe, we got that the run rate of the earnings, not the charges. The charges --

Peter Juhas, Chief Financial Officer

I'm talking about the charges.

Aengus Kelly, Chief Executive Officer and Executive Director

Yeah. We got the charges, not the earnings. We will add those charges back, Moshe.

Vincent Caintic, Analyst

Vincent.

Aengus Kelly, Chief Executive Officer and Executive Director

Vincent, sorry.

Vincent Caintic, Analyst

Yeah. Okay. Yeah. Understood.

Peter Juhas, Chief Financial Officer

And then Vincent, in terms of the earnings for the fourth quarter, I would say it's somewhat of a messy quarter because you do have a number of things coming through there, right, in terms of the transaction itself. There are certain -- you saw the transaction related expenses. There are other things that you have to book just under the accounting rules that that kind of complicates it for the fourth quarter. So it's not a great run rate from that perspective. I mean, I guess the one thing that I could do in terms of thinking about the year is give you an idea of some of the drivers, right, like CapEx, for example. So CapEx I think will be a little over $4 billion for the year, sales were expecting $1.5 billion. Obviously, that will depend on how the sales market plays out, but that's what we're expecting. And then SG&A, because that really shouldn't be affected by any of these other things. I think that will run at probably $110 million a quarter, including stock-based comp. So if that's helpful.

Aengus Kelly, Chief Executive Officer and Executive Director

And one of the thing in the fourth quarter Moshe, was a number of charges were not allowable for tax purposes. So that drove up the tax rate to an unusually high rate in the fourth quarter, which won't be the case going forward. We went to 20 -- almost 22% in the first -- fourth quarter, which won't be the case the rest of the year.

Peter Juhas, Chief Financial Officer

No. I mean, I think, so overall, our effective tax rate was 14.2% for 2021 and I think it will probably be around that for 2022, I think between 13% and 15%, which is consistent with what it was before.

Vincent Caintic, Analyst

Okay. Thank you. Yeah. I appreciate all that detail and I understand there's a lot of moving parts and thank you for that. Kind of maybe second question, if you could talk about your thinking about impairing the aircraft that are in Russia, if you could maybe help us think about how to frame that and how insurance comes into play when you think about that impairment? Thank you.

Peter Juhas, Chief Financial Officer

Sure. So look, we expect that we'll have to take an impairment based on the fact that the leasing has been terminated. The airlines aren't returning our aircraft and in many cases, as I mentioned, they're continuing to fly them, right. So we will do our impairment review when we prepare our first quarter results, but under the accounting rules, we may not be able to immediately recognize any recoveries from insurance claims if they're contested. And in this case, we expect them to be contested just given the large sums involved across the industry. So that's why we wanted to highlight for everyone, what the exposure is and to give people an idea that that may occur in the first quarter. As I said, it's not -- we haven't gone through that whole analysis yet, but just wanted to make sure that people are aware of it.

Aengus Kelly, Chief Executive Officer and Executive Director

And obviously, we submitted a claim of $3.5 billion and we believe the full amount of $3.5 billion claim is valid.

Vincent Caintic, Analyst

Great. That's very helpful. Thanks very much guys.

Aengus Kelly, Chief Executive Officer and Executive Director

Sure.

Operator

All right. Up next, we'll take a question from Ross Harvey with Davy. Please go ahead.

Ross Harvey, Analyst

Hi, thanks guys. I just want to dive into the insurance claim point, if okay. So you have $3.5 billion claim in. I'm just wondering is that net of any other money that have already recovered of the aircraft you recovered. And I'm just wondering as well, are there any overlaps in so far as have you claimed through the airlines insurance and separately through your own contingent insurance and just where might that net off? And also just to add into that, in terms of the accounting for Q1, if you were to be looking at impairments on the aircraft that are based on Russia what you haven't recovered, would you be allowed to put an expected insurance claim into your expected cash flow models on those aircraft to a degree that you might have expected insurance payout? So I'm just wondering what we're likely to see in Q1 and then that's potentially a later debt in terms of insurance payout just the timing of any of the impairments and potential gains on that?

Peter Juhas, Chief Financial Officer

Sure, Ross. So first, the $3.5 billion figure that relates only to the aircraft and engines, which have not been recovered. So those are the ones that are still in Russia, and that's a claim under our policies. We'll also have to look at other policies, the airlines policies and others to evaluate those for claims as well. And in terms of when could those -- when could we receive those amounts? I think we'll just have to wait and see it through. Too early to do that obviously. We just filed that claim last week. As it relates to the impairment and whether you can count the insurance proceeds against that when looking at the assets and doing the cash flows. So as I said, we haven't done our review for the first quarter yet. So I don't want to prejudge that, but our understanding is that as long as insurance claims are contested that you cannot count them, right. And I just think it's reasonable to assume that they will be contested in this case. And so that's why I think what we're likely to see is a timing mismatch between when you have to do that impairment analysis and when you're likely to get recoveries under insurance claims or other claims that we may get.

Ross Harvey, Analyst

Okay. Thanks, Pete. Just into the area of accounting then, if I may. So I'm just trying to look at the revaluation of GECAS assets as it compares to the pro forma figure that you gave in November. In particular, I think there has been a pretty big increase in terms of the lease premium assets. They look like their are about $500 million higher. The maintenance rights assets look like they're about the same. Can you just comment on how there was revaluation between October and now-- and I mean, I presume it just of the case of getting into look at the actual contracts themselves. And related to that, I think you gave a figure of $129 million at the end of the prepared remarks. I just wondering does that relate to the -- what we would remember from the ILSC days -- is that like the additional maintenance rights asset amortization above and beyond what would have been there from a D&A perspective on the aircraft?

Peter Juhas, Chief Financial Officer

Yes. So on the second one, yes, effectively, that is -- that is the same thing that we -- you would have seen in the ILSC acquisition. So when we did the purchase price allocation -- for the pro formas -- pro forma, you have to do under different rules, right. And there are assumptions about the date of those. And I would say, even though we had access to all the contracts before and got to see them obviously during our due diligence the pro formas were based on the information that we had back then back during diligence. And so you have to basically roll all of that forward and look at the actual conditions, so it's based on some estimates there. And when we looked at the actual condition as of November 1, when the transaction closed, that's when you have to go into detail on those. And so it really -- it really just reflects a different maintenance condition for the most part. I mean you also look at the leasing environment at the time, but I don't think that was really a big driver of it at that point. And I would say, just for everyone's clarity because the transaction closed on November 1 and the Russian invasion and sanctions are happened in February. That didn't affect the PPA at all. So that was all -- that was all done and unaffected by this because this is -- the Russian thing is really a subsequent event.

Ross Harvey, Analyst

Thanks. If you don't mind -- I'll just get one more follow-up, and if that's okay, Pete. Just in terms of the SG&A and the leasing expenses in Q4, can you just try and break out first a little bit more what so-called transient factors are in there on just what we should be looking us in terms of the run rate into Q1?

Peter Juhas, Chief Financial Officer

Sure. So look SG&A, as I said, I think that -- I think that a reasonable number to assume on a quarterly basis is $110, million which is encompasses the stock-based comp to, right, so all SG&A plus stock-based comp. I think in the fourth quarter, it was probably elevated by $15 million to $20 million or so SG&A just given kind of one-time things that don't strictly fall under transaction expenses, but really are transaction expenses for all intents and purposes. And then on the leasing expenses side, I'd say that was probably elevated by $60 million to $70 million for similar things. As I said, there is a number of things that the accounting rules just require you to do and those are some of the effects that we saw.

Aengus Kelly, Chief Executive Officer and Executive Director

One other thing in the -- for -- in the fourth quarter that came out of the accounting rules is there were quite a number of instances where GECAS contracted a sale at a gain, under the accounting rules, what we must do is carry that asset at the sales price, so no gain is recognized. But what happens is that, of course, you have more money to write down assets that remain on your balance sheet. So that had a further dampening effect on the earnings of the fourth quarter for the company because there are quite a number of airplanes that had gains built into them where they were selling for values that were higher than the GECAS carrying values and, of course, we bought the assets at lower than the GECAS carrying values.

Ross Harvey, Analyst

Got you. Thanks. Thanks both.

Peter Juhas, Chief Financial Officer

Sure.

Operator

All right. And our next question will come from Catie O'Brien with Goldman Sachs. Please go ahead.

Catherine O'Brien, Analyst

Hey, good morning, everyone. Thanks so much for the time. Not to belabour this -- but just one more on the Russia impairment accounting. But you had 5% net book value on lease to Russian Airlines, at year end '21. Since then, I think you've got back just under $600 million of that value offset through letters of credit, repossessions. On my math that leaves about 4% of your book value exposed. But how do you think about further offsets to that 4% potential book value hit if any -- does that already include cash security and maintenance deposits you have on your balance sheet? And then, obviously, totally understand there are some accounting practices where there might be a mismatch between insurance proceeds and you guys having to take the impairment. But down the line, would any insurance proceeds coming in at a gain, potentially offset impairments, if you take the meantime, I realize there are like a couple of questions in one there.

Peter Juhas, Chief Financial Officer

Yeah. Sure. No problem, Katie. So the net carrying value of $3.1 billion and if you can see this on the Slide 6 that I went through, but that incorporates the net book value of the assets, maintenance rights asset and other things -- lease premium assets that I mentioned. And it also incorporates the maintenance reserves of roughly $700 million. So those are the reserves that we got for it. And then in addition to that, we've got that $260 million of letters of credit, which are also protections that we have and we're drawing on them, but we don't put them on our balance sheet because it's not cash reserve that we hold. It's just -- it's a letter of credit that we can draw on.

And so if you -- the way I would look at it is I'd say take that $3.1bn net carrying value, subtract the amounts of letters of credit that we've received to date and we expect to continue to get these, and then subtract the carrying value of the aircraft that we've removed from Russia, right. So roughly $400 million. And that gets you to around $2.5 billion. So that's what I would look at as the net exposure there. And in terms, and I guess maybe just to frame it -- in terms of what does that mean for us, right. So if we had to write down that entire amount -- let's just say we had to write down that entire amount in the first quarter, the impact on us would likely be to take our leverage ratio up to about 3 to 1, right. So obviously that's the setback from where we were today, which is just under 2.7 to 1, but we have to keep in mind, it is about 5% of the fleet or little under given those offsets. And so we would expect to delever during the course of the year back towards our target level of 2.7 to 1. So I think that from that standpoint, well, as I said a setback, it's a manageable one and the overall trajectory of the business isn't really affected, I should say also because we have gotten some questions in terms of financial covenants. That's really unimpacted as well. We're well below any thresholds on that front. So now in terms of the insurance recoveries, right, so let's say -- you had to take that if we took that write down during the first quarter then any insurance recoveries coming in would just come in as other income. So it's not necessarily a gain, it's just other income that you would be recognizing when you receive it or when it's probable of receipt.

Aengus Kelly, Chief Executive Officer and Executive Director

And as Pete mentioned there, the 3 to 1 ratio, that we would go to in that scenario is what we told you we would be at once we closed the GECAS deal at December 31. What has happened, of course, is that the GECAS transaction has been a big success. We've seen, there was a very strong earnings between March and December of the 2021, which gave us a significant boost in the business that outperformed the base case there.

Catherine O'Brien, Analyst

That's some great color. So really -- just a bit of a timing mismatch, obviously, with all the uncertainty. I understand there's some concern, but -- but good to know. And then maybe just a longer-term one. So as we think about you guys combining the two fleets in the next couple of years, should we expect to see something similar to what we saw post ILFC, you guys shrunk the fleet for a couple of years clean things up, use the gains on sale to delever? Anything different this time around? And then if we do see the fleet get a little bit smaller over the coming years as you go through those transactions, to what extent like should returns improve or maybe we see shareholder returns, but even if the fleets getting a bit smaller, we might see book value per share, EPS per share, however you want to think about it improve from here? Thanks so much for the time.

Aengus Kelly, Chief Executive Officer and Executive Director

I think Katie, that's driven by the fundamentals of the business. And if you look at the nine months from March to December, which where the business was owned by us, it outperformed what we thought. As we go forward, I think you're going to continue to see that trend. That's going to grow book value per share, that's going to enhance our ability to allocate capital as we see best and we've been very disciplined and careful stewards of your money the shareholders over the last 10, 12 years, as you've seen. And we will always do what we think is in the best long-term interest of the business on a risk award basis. As I said, look, we came into the end of the year, December, in an extremely strong position way ahead of where we thought we'd be at 2.66 to 1 on the debt equity where we had originally guided 3 to 1. Now as Pete mentioned, the events of Russia are certainly a setback, but they are a very manageable setback and the core of the business is still extremely strong. As I said, we're seeing the recovery in aviation is continuing to occur. We have a diversified business now with a leading position with the engines, and to come back to asset sales. You're going to see a very similar playbook, I would imagine to what you saw eight years ago.

Catherine O'Brien, Analyst

That's great. Lot to look forward to you. Thank you so much.

Peter Juhas, Chief Financial Officer

Sure.

Operator

And there are no further questions in the queue. Actually, we'll take one more question here. I apologize. We will hear from Ron Epstein with Bank of America. Please go ahead.

Ron Epstein, Analyst

Okay. Thanks guys. Yeah. Last but not least hopefully. A couple of questions for you. One question, a quick one. I've gotten from investors is, what are your thoughts on capital deployment? I mean, how should we think about share buybacks going forward? You guys did generate a bunch of cash in the quarter.

Aengus Kelly, Chief Executive Officer and Executive Director

Well, I mean Ron, I think, as I just said there, we obviously came into the year-end at an extraordinarily strong position way ahead of where we had expected to be. The events in Russia have set us back a little bit, but I think our priority now, as we said, is we want to move up on the rating spectrum as well, but we have always been extremely disciplined around the best use of capital and how to deploy that capital. Be it with share buybacks or asset acquisitions, M&A, but I do think it's worth noting, Ron. And when I started here, we did our first earnings call, the business had about $3.5 billion of assets. Today it's got $75 billion. And along with that has come a very disciplined deployment of capital.

Ron Epstein, Analyst

Got it. And then maybe a second question, a quick one. So Russia clearly violated Cape Town. What's that mean going forward to place airplanes into emerging markets? Is there going to be some sort of increased risk premium that's got to get priced in the leases?

Aengus Kelly, Chief Executive Officer and Executive Director

Russia is clearly a black swan event and over the course of 50, 60 years of aircraft leasing and we haven't seen an event of this magnitude before I think that and -- all the other countries we're in -- the lessees comply with the rules of the land. And so I think that there is a temporary aberration here related to Russia. Of course, but I don't believe that will have an impact on other jurisdictions around the world in the long term.

Ron Epstein, Analyst

Got it. Got it. And then maybe just two quick airplane questions. When do you expect to get 787s? I mean those still haven't been delivered. I mean, when do you think we could start seeing them delivered and when do you expect to get yours?

Aengus Kelly, Chief Executive Officer and Executive Director

Well, Ron, I guess from our own unique position in the industry as the largest marginal supplier of capacity to the airlines, on the supply side, the longer airplanes don't deliver, the more positive it is for us. That's a fact -- simple fact. However, I do believe the 787 is a great airplane and we look forward to getting it when they will start to deliver again. And indeed I guess, Ron, it's not when they start to deliver really, it's the pace at which they deliver and the same is true of the MAX and the pace that it can be delivered. And we will have to see on the Airbus side as well. What impact supply chains have there. The other part of our business on the supply side that has been extremely constrained over the last five years has been the helicopter side. And again we are the marginal supplier of capacity to that industry too. So as I look at supply side, given as I said AerCap's unique position as the key marginal supplier of lift to the industry, where we have supply hiccups, it's not always a bad thing for us.

Ron Epstein, Analyst

Got it. Got it. And then maybe just one final one, if I can. It looks like the 737 MAX 7 and MAX 10 might not actually get certified in time. Do you expect that to impact the deliveries of those airplanes, the timing and pace at which they can be delivered?

Aengus Kelly, Chief Executive Officer and Executive Director

It may -- but it's very difficult to say at this point. What I can tell you about the MAX is that the MAX 8 is in strong demand out there right now. The MAX 8 is an extremely capable aircraft. And that airplane is seeing strong demand out there, as is for that matter the 737 800, which is a tremendous airplane too, notwithstanding the tragic events occur -- of course that occurred in China -- China Eastern. But what we have seen to be surprised by is the MAX 8 that we've seen the gap on the lease rates pretty much close now between A320neo and the MAX 8. They are not that far apart at all where there was a significant gap for much of the last couple of years.

Ron Epstein, Analyst

Got it. Thank you very much.

Aengus Kelly, Chief Executive Officer and Executive Director

Thank you all very much.

Operator

And that concludes the Q&A session for today. I will now hand the call back to Aengus Kelly for closing remarks.

Aengus Kelly, Chief Executive Officer and Executive Director

Thank you all for joining us today for the call. As you can see, we're very excited about the future for this business. We saw the capability of the company over the course of the last nine months of 2021. And notwithstanding the events in Russia, which as I said, are certainly a setback, but a very manageable one. We are very confident in the future as we see the recovery in air travel gain traction around the world with the COVID restrictions being unwound. So again, thank you very much for joining us on the call and look forward to speaking to you again in a couple of months' time.

Operator

And this concludes today's call. We thank you again for your participation. You may now disconnect.